



COMMONWEALTH of VIRGINIA

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Office of the Comptroller

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May 23, 2006

MEMORANDUM

TO: Component Unit / Related Organization Contacts

FROM: David A. Von Moll

Component Unit Year End Reporting Memorandum – FY 2006

Summary

This document provides guidance for the preparation and submission of component unit and related organization financial statements / templates, attachments, and other supplemental information.

The **Introduction** section explains the reason submissions to the Department of Accounts are required, outlines necessary peer review report submissions, and discusses the early implementation of GASB pronouncements.

The **Component Units** and **Related Organizations** sections define component units and related organizations, identify applicable entities for the Commonwealth, and summarize financial submission requirements. Due dates vary based on the nature of each entity. A complete list of due dates is located on pages 6-7.

The **Submission of Financial Statements / Templates and Attachments** section discusses the importance of due dates, outlines the means available to submit information to the Department of Accounts, lists the internet location of this document, and references contact information for individuals who can provide assistance.

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Component Unit Year End Reporting Memorandum – FY 2006, Continued

Summary (continued)

The **Preparation of Financial Statements / Templates and Attachments** section addresses selected GASB Statements, Technical Bulletins, and Interpretations. The **[GASBS No. 33 – Nonexchange Transactions Overview](#)** and **[GASBS No. 34, Financial Reporting Model Overview](#)** sections provide additional reporting guidance.

The **Supplemental Information** section outlines additional submission requirements for selected component units. This section is applicable for:

- **Hampton Roads Sanitation District Commission**
 - **Small Business Financing Authority**
 - **Virginia Housing Development Authority**
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Introduction

Reason for submission requirements

Financial statements / templates, attachments, and supplemental information are required for the preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR). Bond rating agencies use the CAFR to determine Virginia's bond rating, and they require that parts of the CAFR are included in bond offering statements. Maintaining an unqualified opinion on the CAFR is critical to Virginia's retention of its AAA bond rating.

Peer review report submissions

The Government Auditing Standards, commonly known as the Yellow Book, require auditors who are relying on another audit organization's work to request a copy of the audit organization's peer review report.

Those component units that are audited by an audit firm other than the Auditor of Public Accounts should be prepared to **have the auditors provide a copy of the most recent peer review report AND any accompanying letter of comment to the Auditor of Public Accounts.**

Early implementation of GASB statements

There will be **no** early implementation of any GASB statement for CAFR reporting purposes. Any entity that plans early implementation of any GASB statement should notify Ron Necessary, Director of Financial Reporting, immediately at (804) 225-2380.

Thank you

Thank you in advance for assisting to successfully complete the *Comprehensive Annual Financial Report* for fiscal year 2006.

Component Units

Definition

A component unit is a legally separate organization that is financially accountable to the primary government or has relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Commonwealth is required to incorporate the financial data of all component units in its financial statements.

Entities and applicable guidance

Component unit submission requirements are provided in the following documents which are located on DOA's website at www.doa.virginia.gov. Click on the "Financial Reporting" button, then click on "Financial Statement Directives."

- **Comptroller Directive No. 1-06, Financial Statement Template Preparation for Higher Education Institutions** (Higher Education)
- **Comptroller Directive No. 2-06, Directive Compliance Guidelines for State Agencies** (State Agency)
- **Component Unit Year End Reporting Memorandum – FY 2006** (This Document)

The following summarizes the Commonwealth's component units and their applicable guidance.

Component Unit	Applicable Directive/ Memorandum
Advantage Virginia Incentive Program Foundation (VEC)	State Agency
A. L. Philpott Manufacturing Extension Partnership	This Document
Certified Nursing Facility Education Initiative (DMAS)	State Agency
Dr. Martin Luther King, Jr. Living History and Public Policy Center (DLS)	State Agency
Hampton Roads Sanitation District Commission	This Document
Higher Education Institutions	Higher Education
Innovative Technology Authority	Higher Education
Institute for Advanced Learning and Research	Higher Education
Library of Virginia Foundation	This Document
Pocahontas Parkway Association	State Agency
Roanoke Higher Education Authority	Higher Education
Science Museum of Virginia Foundation, Inc.	State Agency
Small Business Financing Authority	This Document
Southern Virginia Higher Education Center	Higher Education
Southwest Virginia Higher Education Center	Higher Education
Tobacco Indemnification and Community Revitalization Commission	This Document
Virginia Arts Foundation	This Document
Virginia Biotechnology Research Park Authority	This Document
Virginia Coalfield Coalition Authority (VDOT)	State Agency
Virginia College Building Authority	Higher Education
Virginia Economic Development Partnership	This Document

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Component Units, Continued

Entities and applicable guidance (continued)

Component Unit	Applicable Directive/ Memorandum
Virginia Equine Center Foundation and Virginia Horse Center Foundation	This Document
Virginia Housing Development Authority	This Document
Virginia Land Conservation Foundation	This Document
Virginia Museum of Fine Arts Foundation (VMFA)	State Agency
Virginia Outdoors Foundation	This Document
Virginia Port Authority and Virginia International Terminals	This Document
Virginia Public Building Authority (Treasury)	State Agency
Virginia Public School Authority (Treasury)	State Agency
Virginia Resources Authority	This Document
Virginia Schools for the Deaf and Blind Foundation (DOE)	State Agency
Virginia Tobacco Settlement Foundation	This Document
Virginia Tourism Authority	This Document

Required submissions

A list of required submissions for component units covered by this document follows. See “Entities and Applicable Guidance” above for identification of entities covered by this document.

- Financial Statements (selected component units)
- Supplemental Information (selected component units)
- Attachment CU1: Entity Additional Information Survey
- Attachment CU2: GASBS No. 14 Checklist Modified to Reflect GASBS No. 39
NOTE: The entity will complete this for itself.
- Attachment CU3: GASBS No. 14 Checklist Modified to Reflect GASBS No. 39
NOTE: The entity will complete this for any organizations, foundations, or component units related to it.
- Attachment CU4: Financial Statement Template For Selected Component Units
- Attachment CU5: Federal Schedules
- Attachment CU6: Schedule of Cash, Cash Equivalents, and Investments at June 30
- Attachment CU7: GASBS No. 20 for Proprietary Funds
- Attachment CU8: Capital Asset Disclosures
- Attachment CU9: Asset and Liability Disclosures
- Attachment CU10: Proprietary Funds – Conversion to Statement of Activities
- Attachment CU11: Short-term Debt
- Attachment CU12: Intrafund Activity
- Attachment CU13: GASBS No. 42, Impairment of Capital Assets and Insurance Recoveries

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Component Units, Continued

Due dates

Submission due dates for component units covered by this document are as follows. (See “Entities and Applicable Guidance”)

Attachments CU1 – CU3	Attachment CU4 (Template)	Attachment CU5 (Federal Schedules)	Financial Statements	Attachments CU6 – CU11	Attachment CU12 (Intra-fund Activity)	Attachment CU13 (Impairment of Cap Assets)	Supplemental Information
August 17	August 31	August 31	September 26	September 26	September 26	September 26	September 26

Component Unit	Applicable Attachments
A.L. Philpott Manufacturing Extension Partnership	CU1-CU3, CU5, Financial Statements, CU6-CU11, CU13
Hampton Roads Sanitation District Commission	CU1-CU3, CU5, Financial Statements, CU6-CU11, CU13, Supplemental Information
Library of Virginia Foundation	Financial Statements, CU10
Small Business Financing Authority	CU1-CU3, CU4, CU5, CU7, Supplemental Information
Tobacco Indemnification and Community Revitalization Commission	CU1-CU3, CU4, CU5
Virginia Arts Foundation	CU1-CU3, CU4, CU5
Virginia Biotechnology Research Park Authority	CU1-CU3, CU5, Financial Statements, CU6-CU11, CU13
Virginia Economic Development Partnership	CU1-CU3, CU4, CU5
Virginia Equine Center Foundation and Virginia Horse Center Foundation	CU1-CU3, CU5, Financial Statements, CU6-CU11, CU12, CU13
Virginia Housing Development Authority	CU1-CU3, CU5, Financial Statements CU6-CU11, CU13, Supplemental Information
Virginia Land Conservation Foundation	CU1-CU3, CU4, CU5
Virginia Outdoors Foundation	CU1-CU3, CU4, CU5
Virginia Port Authority and Virginia International Terminals	CU1-CU3, CU5, Financial Statements, CU6-CU11, CU12, CU13
Virginia Resources Authority	CU1-CU3, CU5, Financial Statements, CU6-CU11, CU13
Virginia Tobacco Settlement Foundation	CU1-CU3, CU4, CU5
Virginia Tourism Authority	CU1-CU3, CU4, CU5

Related Organizations

Definition

A related organization is an organization for which the elected officials of the Commonwealth are accountable because they appoint a voting majority of the board, but are not financially accountable. The Commonwealth is required to disclose the nature of its accountability for related organizations in the notes to the financial statements.

Entities

Related organization submission requirements are provided in the **Component Unit Year End Reporting Memorandum – FY 2006** which is located on DOA's website at www.doa.virginia.gov. Click on the "Financial Reporting" button, then click on "Financial Statement Directives."

The following summarizes the Commonwealth's related organizations:

- Assistive Technology Loan Fund Authority
 - Center for Rural Virginia
 - Chesapeake Bay Bridge and Tunnel Commission
 - Foundation for Virginia's Natural Resources
 - Hampton Roads Sports Facility Authority
 - Jamestown-Yorktown Educational Trust
 - Jamestown-Yorktown Foundation, Inc.
 - Miller School of Albemarle
 - Rural Virginia Development Foundation
 - Tobacco Settlement Financing Corporation
 - Tourist Train Development Authority
 - Virginia Baseball Stadium Authority
 - Virginia BioSciences Development Center
 - Virginia Birth-Related Neurological Injury Compensation Program
 - Virginia Capital Preservation Foundation
 - Virginia Commercial Space Flight Authority
 - Virginia National Defense Industrial Authority
 - Virginia Recreational Facilities Authority
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Required submissions and due dates

The following submissions are required from related organizations. All information is due **September 26, 2006**. The Department of Accounts (DOA) may contact Related Organizations with questions regarding the financial information submitted.

- Financial Statements
- Attachment CU1: Entity Additional Information Survey
- Attachment CU2: GASBS No. 14 Checklist Modified to Reflect GASBS No. 39

NOTE: The entity will complete this for itself.

Submission of Financial Statements / Templates and Attachments

Due dates	To avoid delays in preparing the CAFR, it is imperative that DOA receives the entity's information on or before the established deadlines. Please communicate these requirements and due dates to the entity's auditors to ensure the timely completion of the audit.
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Submitting financial material	Entities should send the required materials by <u>ONE</u> of the following methods: E-mail: finrept@doa.virginia.gov <u>OR</u> Fax: (804) 225-2430 <u>OR</u> Mail: Ronald D. Necessary Director, Financial Reporting Department of Accounts P.O. Box 1971 Richmond, VA 23218-1971
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Availability	Component Unit Year End Reporting Memorandum – FY 2006 and the attachments are available on the Internet at www.doa.virginia.gov . Click on the “Financial Reporting” button, then click on “Financial Statement Directives.”
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Questions	Jamie G. Motley Assistant Director of Financial Reporting Voice: (804) 225-2646 FAX: (804) 225-2430 E-mail: jamie.motley@doa.virginia.gov Ronald D. Necessary Director of Financial Reporting Voice: (804) 225-2380 FAX: (804) 225-2430 E-mail: ron.necessary@doa.virginia.gov
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Preparation of Financial Statements / Templates and Attachments

Introduction

This section provides an overview of select existing and future GASB Statements, Interpretations, and Technical Bulletins to be considered when preparing financial statements / templates and data.

[GASBS No. 7 disclosures](#)

GASBS No. 7 provides guidance on required disclosures for refunding of debt for all governmental entities.

- At a minimum, the disclosures should include the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding, and the economic gain or loss resulting from the refunding.
 - Please ensure this information is included in the entity's notes to the financial statements.
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[GASBS No. 27 net pension obligation entries](#)

The Virginia Economic Development Partnership (VEDP), the Virginia Tourism Authority (VTA), and the Virginia Outdoors Foundation (VOF) **are required** to record a Net Pension Obligation (NPO) in their individual financial statements to comply with GASBS No. 27. The VEDP, VTA and VOF NPO is calculated as part of the Commonwealth's pension liability (a separate actuarial valuation is not done for VEDP, VTA or VOF), but the Commonwealth is not considered the employer for VEDP, VTA or VOF.

DOA will provide any applicable information in a separate communication. Other entities that need to record a NPO are responsible for computing the amount.

[GASBS No. 28 securities lending entries](#)

DOA will provide asset, liability, income, and expense amounts for each entity's share of securities lending transactions, if any, held in the General Account of the Commonwealth. This information and guidance on where these amounts should be recorded in the financial statements will be provided in a separate communication.

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Preparation of Financial Statements / Templates and Attachments, Continued

<u>GASBS No. 33 and GASBS No. 36</u>	Nonexchange transactions must be reported in accordance with <u>GASBS No. 33</u> and <u>GASBS No. 36</u> (see also <u>GASBS No. 33 – Nonexchange Transactions Overview</u> section in this document).
<u>GASBS No. 34 / GASBS No. 37 / Interpretation No. 6</u>	<u>GASBS No. 34</u> , <u>GASBS No. 37</u> , and <u>GASB Interpretation No. 6</u> establish the financial reporting model (see also <u>GASBS No. 34 – Financial Reporting Model Overview</u> section in this document).
<u>GASBS No. 38</u>	<u>GASBS No. 38</u> , <i>Certain Financial Statement Note Disclosures</i> , establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.
<u>GASBS No. 39</u>	<u>GASBS No. 39</u> , <i>Determining Whether Certain Organizations Are Component Units</i> , amends <u>GASBS No. 14</u> by providing criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. <u>GASBS No. 39</u> also provides reporting requirements for such organizations.
<u>GASBS No. 40</u>	<u>GASBS No. 40</u> , <i>Deposit and Investment Risk Disclosures</i> , amends <u>GASBS No. 3</u> by updating the custodial credit risk disclosure requirements and establishing more comprehensive disclosure requirements for other common risks of deposits and investments. This statement is being implemented this fiscal year.

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Preparation of Financial Statements / Templates and Attachments, Continued

GASBS No. 42

GASBS No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, requires evaluation of events and circumstances that might impair the value of capital assets. It also provides guidance on reporting permanently impaired capital assets and all insurance recoveries. This statement is being implemented this fiscal year.

Attachments CU4 and CU13 have been revised to gather this information for CAFR reporting. Component Units that may have material impaired capital assets should read and understand the requirements of GASBS No. 42 and ensure it is properly reflected in the financial statements.

GASBS No. 43 and GASBS No. 45

GASBS No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASBS No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, establish uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans. These statements are effective for fiscal year 2007 and fiscal year 2008, respectively.

GASBS No. 44

GASBS No. 44, Economic Condition Reporting: The Statistical Section,* modifies the reporting guidelines DOA must report in the Statistical Section in the CAFR. This statement is effective for fiscal year 2006.

Note*: Component Units do not have to submit information to DOA regarding GASBS No. 44.

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Preparation of Financial Statements / Templates and Attachments, Continued

[GASBS No. 46](#) GASBS No. 46, *Net Assets Restricted by Enabling Legislation*, provides additional clarification and reporting guidance on net assets that are restricted as a result of enabling legislation. This statement is being implemented this fiscal year.

Attachment CU4, Tab 8, has been revised to request information on the impact, if any, of GASBS No. 46 on net assets.

[GASBS No. 47](#) GASBS No. 47, *Accounting for Termination Benefits*, provides guidance for the reporting of voluntary and involuntary termination benefits. This statement is being implemented this fiscal year.

Attachment CU4, Tab 8, has been revised to request information on the impact of GASBS No. 47.

[GASB Technical Bulletin 2003-1](#) GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*, provides guidance on derivative disclosures.

[GASB Technical Bulletin 2004-2](#) GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures / Expense and Liabilities by Cost-Sharing Employers*, provides guidance on pension and other postemployment benefit disclosures.

[SOP 98-1 Internal use computer software costs](#) **SOP 98-1, “*Capitalization of Software Costs*,”** issued by the AICPA, provides the requirements for capitalizing costs of software developed or obtained for internal use. The Commonwealth has elected to follow **SOP 98-1**. Any inquiries may be addressed to those listed in the [Questions](#) section of the document.

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Preparation of Financial Statements / Templates and Attachments, Continued

Other
interpretations
to consider

Interpretation No. 2, *Disclosure of Conduit Debt Obligations*

Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements*

Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*

Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

GASBS No. 33 – Nonexchange Transactions Overview

Definition of nonexchange transactions

Nonexchange transactions are those transactions where a government gives (or receives) value **without** directly receiving (or giving) equal value in return. GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASBS No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, provide guidance on reporting nonexchange transactions. The four types of nonexchange transactions are as follows:

Derived Tax Revenues – assessments imposed by governments on exchange transactions.

Imposed Nonexchange Transactions – assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions.

Government-mandated Nonexchange Transactions – a government at one level provides resources to a government at another level and requires that government to use the resources for a specific purpose or purposes established by the provider’s enabling legislation.

Voluntary Nonexchange Transactions – result from legislative or contractual agreements, other than exchanges, entered into willingly by two parties.

Derived tax revenue – recognition requirements

Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption

Asset Recognition:

Period when underlying exchange has occurred or when resources are received, whichever is first.

Revenue Recognition:

Period when underlying exchange has occurred. (Report advance receipts as unearned revenues.) When modified accrual accounting is used, resources also should be available.

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GASBS No. 33 – Nonexchange Transactions Overview,

Continued

Imposed nonexchange transactions – recognition requirements

Examples: property taxes, most fines and forfeitures

Asset Recognition:

Period when an enforceable legal claim has arisen or when resources are received, whichever is first.

Revenue Recognition:

Period when resources are required to be used or first period that use is permitted. When modified accrual accounting is used, resources also should be available.

Government- mandated / voluntary nonexchange transactions – recognition requirements

Examples: government-mandated nonexchange transactions – federal government mandates on state and local governments / voluntary nonexchange transactions – certain grants and entitlements, most donations

Asset and Liability Recognition:

Period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first.

Revenue and Expenditure / Expense Recognition:

Period when all eligibility requirements have been met. (Report advance receipts or payments for use in the following period as unearned revenues or advances, respectively.) When modified accrual accounting is used for revenue recognition, resources also should be available.

Note: Eligibility requirements are discussed on the following page.

Overall recognition requirements

Revenue transactions that do not meet the revenue recognition requirements in GASBS No. 33 and GASBS No. 36 must be reclassified as unearned revenue. Expenditure / expense transactions that do not meet the expenditure / expense recognition requirements in GASBS No. 33 must be reclassified as an advance. That is, until those requirements are met, the provider does not have a liability or recognize an expenditure / expense.

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GASBS No. 33 – Nonexchange Transactions Overview,

Continued

Eligibility requirements

The eligibility requirements are conditions established by enabling legislation or by the provider that must be met before a **nonexchange** transaction can occur. The eligibility requirements are:

- Required characteristics of recipients: The recipient has the characteristics specified by the provider. (For example: Under a certain federal program, recipients are required to be states & secondary recipients are required to be school districts.)
- Time requirements: Time requirements specified by enabling legislation or by the provider have been met. (For example: The period when the resources are required to be used, or when use may begin.)
- Reimbursements: The provider offers resources on a reimbursement (expenditure driven) basis, and the recipient has incurred allowable costs under the applicable program.
- Contingencies (applies only to voluntary nonexchange transactions): The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

GASBS No. 33 footnote disclosure

GASBS No. 33, paragraph 11, states that under either basis of accounting (modified accrual or accrual) recognition of transactions is only required if measurable (reasonably estimable) and probable of collection. GASBS No. 33 requires footnote disclosure of transactions that are not recognizable because they are not measurable.

GASBS No. 33 / GASBS No. 36

GASBS No. 33 and GASBS No. 36 requirements must be followed when preparing GAAP basis (GASBS No. 34) financial statements or financial statement templates (Attachment CU4).

Refer to GASBS No. 33 and GASBS No. 36 for additional guidance and examples of nonexchange transactions and eligibility requirements.

GASBS No. 34, Financial Reporting Model Overview

Background

GASBS No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, modified the financial reporting requirements for governmental entities. GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. GASBS No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, clarifies certain provisions in GASBS No. 34.

GASB has issued the following implementation guides to provide additional guidance:

- 1st Implementation Guide (April 2000)
- 2nd Implementation Guide (January 2002)
- 3rd Comprehensive Implementation Guide (June 2003)
- 4th Comprehensive Implementation Guide (September 2004)
- 5th Comprehensive Implementation Guide (June 2005)

Resources

Resources can be accessed as follows:

Resource	Source
GASB Statements and related Implementation Guides	www.gasb.org
<i>Governmental Accounting, Auditing, and Financial Reporting Using the GASB 34 Model</i> , 2005 edition by Steven Gauthier and related supplement	www.gfoa.org

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GASBS No. 34, Financial Reporting Model Overview, Continued

Statement of Net Assets – overview

Assets and liabilities must be in order of relative liquidity or presented in a classified format to identify current (converted to cash within one year / due within one year) and noncurrent assets and liabilities (converted to cash in greater than one year / due in greater than one year). If the classified format is not used, liabilities with average maturities greater than one year must be reported separately as amounts due within one year and amounts due in greater than one year. **Proprietary funds must use the classified format.**

Cash and cash equivalents (original maturity of 90 days or less) must be reported separately from investments (original maturity of greater than 90 days). Distinguish between Cash and Cash Equivalents with the Treasurer, Cash and Cash Equivalents not with the Treasurer, Investments with the Treasurer, and Investments not with the Treasurer.

Depreciable and nondepreciable capital assets must be reported on separate line items. This does not apply to the Balance Sheet for Governmental Funds because capital assets are not reported on those statements. Capital Assets are only reported in the Government-wide Statement of Net Assets for Governmental Funds.

For the Statement of Net Assets, the fund balance / retained earnings and contributed capital are called net assets under GASBS No. 34 and must be displayed in three broad components:

- 1. Invested in capital assets, net of related debt**
- 2. Restricted (including a description of each type of restriction)**
- 3. Unrestricted**

The following sections provide definitions of Invested in Capital Assets, Net of Related Debt, and Restricted Net Assets. **Unrestricted** net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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GASBS No. 34, Financial Reporting Model Overview, Continued

Statement of Net Assets – Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other **borrowings** that are attributable to the acquisition, construction, or improvement of those assets. This component does not include accounts payable related to capital assets because an accounts payable is not considered a borrowing. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net asset component as the unspent proceeds - for example, restricted for capital projects.

Statement of Net Assets – Restricted Net Assets

Restricted net assets should be reported as restricted, including a description of the restriction, when constraints placed on net asset use are either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

GASBS No. 34 1st Implementation Guide, question 95 states the following: “The basic concept is that restrictions are not unilaterally established by the reporting government itself and cannot be removed without the consent of those imposing the restrictions or through formal due process.” **Any resources that are classified as program revenue – operating or capital grants & contributions are restricted.**

If restricted net assets include amounts related to permanent endowments or permanent fund principal, the expendable and nonexpendable components must be reported separately.

- See GASBS No. 34 for further guidance on restricted net assets.

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GASBS No. 34, Financial Reporting Model Overview, Continued

Statement of Activities – revenue classification

GASBS No. 34 requires revenue to be classified as one of the following on the Government-wide Statement of Activities:

- General Revenue
- Contributions to Term and Permanent Endowments and Contributions to Permanent Fund Principal
- Program Revenue – Charges for Goods / Services
- Program Revenue – Operating Grants and Contributions
- Program Revenue – Capital Grants and Contributions

Program revenue must also be classified by expenditure function. For CAFR reporting purposes, the function is the entity.

Statement of Activities – General Revenue

All revenues are general revenues unless the revenues are required to be reported as program revenues. General revenues consist of the following categories:

- Taxes (source codes 01xxx)
- Investment Earnings
- Grants & Contributions Not Restricted to Specific Programs
- Miscellaneous

All taxes, even those that are levied for a specific purpose (for example, sales tax, property tax, franchise tax, income tax) are general revenues. All other non-tax revenues (including interest, grants and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues.

Statement of Activities – Contributions to Term and Permanent Endowments

Contributions to term and permanent endowments and contributions to permanent fund principal must be reported as a separate revenue line item. Permanent endowment and permanent fund principal is not expendable. Term endowment principal is not expendable until after a specified time period or after a designated event.

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GASBS No. 34, Financial Reporting Model Overview, Continued

Statement of Activities – Program Revenue

The following are descriptions of the classifications of program revenue.

- **Charges for Goods / Services** – include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services, or privileges provided, or otherwise directly affected by the services.
- **Operating Grants and Contributions** – include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government should be reported as Operating Grants and Contributions.
- **Capital Grants and Contributions** – include revenues arising from mandatory and voluntary nonexchange transactions with the Commonwealth, other governments, organizations, or individuals that are restricted for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes (to purchase, construct, or renovate capital assets associated with a specific program). These items should be reported as Capital Grants and Contributions. Note: Capital appropriations received from the Commonwealth should be reported as capital grants and contributions.

Multipurpose Grants (grants that provide financing for more than one program) – should be reported as program revenue if the amounts restricted to each program are specifically identified in either the grant award or the grant application. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as General Revenues.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program specifically identified in the endowment or permanent fund agreement or contract. However, these earnings should be reported as General Revenue if the earnings are used to finance general operating expenses. Earnings on investments not held by permanent funds also may be legally restricted to specific functions or programs. For example, interest earnings on State grants may be required to be used to support a specific program.

Supplemental Information

Hampton Roads Sanitation District Commission

Please provide the following information by **September 26, 2006**:

- Ensure that “property and casualty insurance” and “hospitalization insurance” are reported separately on **Attachment CU9, Asset and Liability Disclosures** as either “other liabilities” or “other long-term liabilities.”

Small Business Financing Authority

Please provide the following information by **September 26, 2006**:

- **Attachment CU7, GASBS No. 20 for Proprietary Funds** is required.

Virginia Housing Development Authority

Please provide the following information by **September 26, 2006**:

- The breakdown between long-term liabilities due within one year and due in greater than one year for Notes Payable.
 - A Schedule of Changes in Long-term Liabilities (beginning balance 7/1/05, additions, deletions, ending balance 6/30/06) for the following:
 - Current Escrows and Project Reserves, if applicable
 - Current Rebate Liability, if applicable
 - Non-current Rebate Liability, if applicable
 - The breakdown of unrestricted and restricted cash amounts
 - The breakdown of unrestricted and restricted cash equivalent amounts
-